

THE ECONOMY ACCELERATES

WEEKLY ECONOMIC UPDATE

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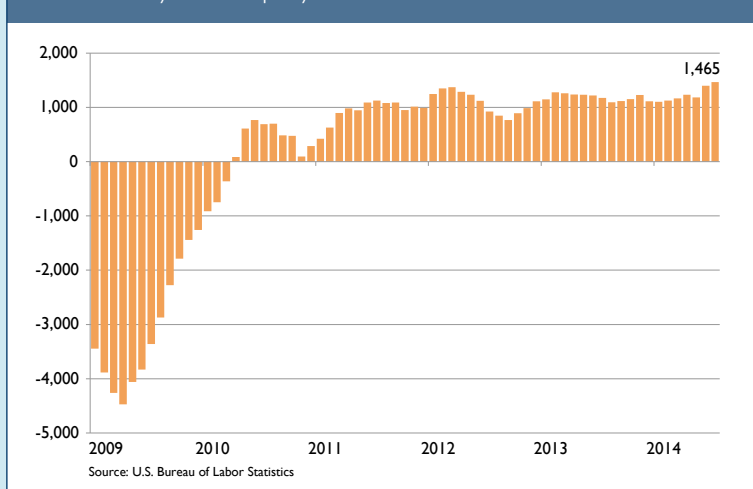
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The major economic releases for the week just ended all indicate that the U.S. economy has rebounded from the weather-induced first quarter contraction and has strong momentum going into the second half of the year.

- U.S. gross domestic product grew at a 4.0% annual rate in the second quarter of 2014, more than offsetting the -2.1% decline recorded in the first quarter. The GDP report also included revisions of the past three years, and one key finding was that the economy is accelerating. U.S. GDP growth has been over 3.5% in three of the past four quarters with the only exception being the weather-induced first quarter contraction.
- Personal income after taxes and inflation increased 0.2% in June and is up 2.3% from a year ago. That's okay, but more importantly, real after-tax income has increased in each of the first six months of 2014, the first time that has happened in two years. In the first half of 2014, real after-tax income has increased at a 4.3% annual rate, compared with 0.4% in the second half of 2013. Income growth clearly is accelerating.

- Payroll employment in the U.S. increased by 209,000 jobs in July, marking the sixth consecutive month that the economy has added more than 200,000 jobs. The last time this happened was at the end of the millennium in 1999-2000. In the past six months the U.S. economy has added 1.46 million jobs, the best six months in the recovery so far.
- Consumer confidence, as measured by the University of Michigan's Index of Consumer Sentiment dipped slightly in July, but the sub-index measuring consumers' views on the current situation increased to its highest level in three months. In fact, over the past eight months the "Current Conditions" sub-index has been at its highest level since before the recession. Consumers appear to be worried about the future (just look around the world), but feel good about their personal financial situation today.
- Finally, the Institute for Supply Management's Purchasing Managers Index a measure of activity in the manufacturing sector, rose in July to its highest level since the beginning of 2011. New orders, production and employment all surged in July, suggesting that the

U.S. Payroll Employment Growth: Six-Month Total



↑ 4.0%

↑ 209,000

SECOND QUARTER U.S. GDP

JULY PAYROLL EMPLOYMENT



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We have been waiting
three years for the
economy to accelerate.
It is finally here.



SUSTAINED STRONG EMPLOYMENT
GROWTH • BOOSTED INCOME
• GROWTH IN GDP

manufacturing sector of the economy is growing at a strong pace as we start the second half of the year.

The employment report is a critical indicator of the health of the U.S. economy. In July, the U.S. added jobs in every major category of activity, including construction (+22,000), manufacturing (+28,000), retail (+26,700), professional & business services (+47,000) and education and health (+17,000). Even local governments, which had been shedding jobs through most of the recovery have added 88,000 jobs this year. Office-using employment, the sum of employment in the financial, professional and business services and information sectors, grew by 56,000 jobs. Office-using employment has grown by 50,000 or more jobs in five of the past six months.

Other elements of the July employment report were not quite as positive. The length of the average work week was unchanged from June and wages were unchanged. Average hourly earnings were up roughly 2.0% from a year ago, where they have been through most of the recovery. The unemployment rate increased to 6.2% due to an increase in the number of unemployed persons. It appears that as the economy is improving, more people who may have been discouraged and are now actively seeking work, increasing the number counted as unemployed.

All of these reports suggest growth in the U.S. economy has shifted up over the past several months. The sustained strong employment growth has boosted income and led to faster growth in GDP. As demand has improved, manufacturers are now seeing their order books increase and are boosting employment and output. We have been waiting for three years for the economy to accelerate. It is finally here.

There is nothing better for the commercial real estate sector than a strong economy.

Each of these reports points to reasons to expect market fundamentals to continue to improve. Job growth, income growth and production growth all point to greater demand for space in the office, industrial and retail sectors. Higher income growth also portends rising demand in the multi-family and hospitality sectors. If we are right and the U.S. economy is poised for a sustained period of strong growth, real estate fundamentals will continue to improve. The sweet spot in the cycle has finally arrived.

